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GRESHAM'S LETTERS

ON THE

SOLIDITY OF COMMERCIAL BILLS,

AND

ENGLISH BANK NOTES:

TOGETHER WITH

TWO LETTERS TO THE BANK DIRECTORS,

ON THE NECESSITY OF ESTABLISHING

A BOARD OF CONTROUL.

EXTRACTED FROM

“*THE ORACLE AND PUBLIC ADVERTISER.*”

LONDON:

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1796.

ADVERTISEMENT.

THE Public is not so easily deceived on almost any subject as that of Finance—The study of that important subject makes no part of the education either of the Scholar, the Gentleman, or the Merchant—The consequence is, that few people understand much of the matter, and those who do are seldom at the pains to write upon it ; men of business are more profitably employed, and men of letters do not consider it as being in their department ; thus it is that the greatest absurdities are propagated without any answer being given to them ; and for the same reason it is, that when an answer is given, it ought to be in as few words as possible.

PREFACE,

ADDRESSED TO COMMERCIAL MEN.

STRUCK with your apathy at a moment when your commercial existence is at stake, I wrote the following Letters to shew how easy it is to defend your cause, *if you had but the will to do it*—if you felt the necessity. You have seen an alarm spread, that certainly influenced the Bank Directors; you have seen the public at large thrown into a state of uneasy suspicion and doubtfulness; you have seen those ravens, that croak with inward joy and outward sadness, the downfall of England, succeed in terrifying the nation, and still you have not attempted to speak truth, and defend yourselves!!!

Do you think that commercial wealth is intailed on your posterity, or that its present possessors are invulnerable? Do you despise your adversaries, in the same moment that you tremble for yourselves, and feel the effects of their enmity? Or is it true, that what is the business of all is the business of no one? Resolve those questions with yourselves and for yourselves; I do not interrogate you for my own information.

The history of past times, from the fall of Tyre and of Carthage to the present day, shews that commercial wealth is the most fleeting of all sublunary things, and that when once gone, it never returns again to the same place. There must be a cause
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for this, and that cause you find to be nothing else than that careless and *avaricious* apathy which accompanies great wealth, against which poverty wages eternal war with an uninterrupted though gradual success.

Risen to the pinnacle of commercial greatness, this is the moment of envy, and the moment of danger; and when so great a fabric has for its foundation *opinion and confidence*, which are changeable and precarious, it is scarcely possible to be too much upon your guard. Could ill intentioned men succeed completely in sowing diffidence and mistrust, those who have least occasion for trusting others would imperceptibly withdraw themselves and their capitals from trade and commerce; and those evils, which now are only ideal, would at last become real, and thus the prophets of misfortune would have caused their prophecy to be fulfilled.

In these letters, which are intentionally written in a very brief manner, it is most clearly proved, that the dreaded run upon the Bank of England is, if not impossible, at least improbable. The idea of a run originated in ignorance of the real nature of the case; and the Directors of the Bank have none of those dangers to fear, which have been industriously held up before them.

Though a few pages are sufficient to demonstrate this, yet the activity and the energy of your enemies must triumph, if you do not throw off that indolent indifference, which has progressively ruined all commercial nations which have hitherto existed.

LETTERS

ON THE

SOLIDITY OF COMMERCIAL BILLS, AND ENGLISH BANK NOTES.

LETTER I.

TO THE CONDUCTORS OF THE ORACLE.

GENTLEMEN,

I HAVE observed with a mixture of indignation and surprise, those attacks which have for some time past been made both on *public* and *private* CREDIT in this country.

The same men who, four years ago, were occupied in disseminating discontent, and who aimed at destroying the Constitution by that means, are now attempting the same thing by another mode. Had not the theories attached to the ruinous Rights of Man been totally unsuccessful, those whose object it is to cause a Revolution in England, would, perhaps, have succeeded ere now; they can, however, have no hope of inducing people here to imitate so fatal an example. The desire of ruining the present order of things, is, nevertheless still as great as before;

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and the mode of obtaining success is, by attacking *Public Credit*---and with it, that of all commercial men.

A desire like this, is not certainly founded on any good will towards the nation at large: on the contrary, it is evident, that the nation will, in every respect, be a loser by such Revolutions as those men wish to bring on.---Their attempts, therefore, excite indignation; but it is equally impossible to see without surprise, the *cool and indifferent manner* in which *those who are attacked* behave on this important occasion.

It is well known, that *credit* depends, in a great measure, upon *opinion*; and it is by influencing opinion, that the attack has been begun. The effect already produced is very considerable; the work goes on, and is greatly favoured by the circumstances of the present times. To those who reflect seriously on this business, it must appear, that unless some energetic efforts are made to counteract these attacks, success will at last attend them; unless, indeed, some unforeseen event arrives, which may serve in place of the efforts of men.

Is it possible that the fatal moment is arrived, when those who possess wealth have lost the will and the power to preserve it? Is it possible, that the efforts of those who assail the rich are set at nought, because they come from men who have
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neither credit nor property themselves? Or, what would be still more strange, do they await destruction and ruin motionless and without effort, as the fascinated traveller awaits the approach of the destroying rattlesnake? Whatever the cause may be, the effect is certain!!

We see, on the one hand, great exertions making to *destroy credit, by acting on the public opinion*; and on the other hand, we see no efforts made to maintain it. Those public prints which boast of being inimical to the Government of this country, attack the credit of the state and of the merchants: We see THOMAS PAINE transformed from a speculator on Liberty, to a speculator on Finance; and what is more, his opinions, ridiculous as they are, are circulated with an *uncommon degree of industry*. POISON IS DISTRIBUTED GRATIS, WHILE THE ANTIDOTE LAYS NEGLECTED ON THE SHELF. Those who are poor give a little of what they possess to ruin the rich; but the wealthy employ no means for their own protection. The same was the case in France seven years ago. Then the Government and men of property were attacked in writings, which were circulated in a similar manner; but the Government and the rich despised opinion—they forgot that “*the spider taketh hold with her hands, and is in King’s palaces.*” We all know the fatal consequences of this ill-timed apathy; and in how

short a space of time those on whom the attack was made, suffered for their indolence.

Some persons will say, that the cases are not quite similar; they cannot, indeed, be expected to be exactly so; but the conclusion is no less clear, that—*wherever opinion has any connection with the existence of a certain order of things, the efforts to change that opinion are never to be slighted.*

If a general mistrust can be inspired here in England—if the credit of Bankers is diminished, then our merchants can no longer give credit abroad, or make advances to our manufacturers at home. The trade of England would instantly decline, and then the payment of taxes would become impracticable. It is thus, that by attacking Lombard-street, a Revolution is attempted at St. James's; and it is on this chain of things, that the enemies of England count for success.

Our enemies would make it be believed, that because the quantities of gold and silver in circulation are small, the circulating paper is not solid; they represent our Paper Credit as a baseless fabric about to fall; and they would therefore persuade individuals to heap up gold, to be cautious; they give an hundred insidious exhortations, which, if listened to, would really destroy the mercantile system. Now, Gentlemen, though I admit that the quantity of gold is not great,
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I am ready to prove, that no money can be more intrinsically solid than is the greatest portion of paper circulating in England, so long as the laws and government are maintained. I mean in my next letter to enter fairly into the question, and expect to convince the most sceptical on that subject, of the *real wealth and solidity, generally speaking, of the Banking Companies, Private Banks, and Commercial Men of England.*

GRESHAM.

LONDON,
SEPT. 11, 1796.

LETTER II.

TO THE CONDUCTORS OF THE ORACLE.

GENTLEMEN,

THE paper in circulation in England ought to be divided into three classes:

- 1st. *Bank Paper, or Bank Notes.*
- 2d. Notes of Private Bankers; and,
- 3d. The Bills of Mercantile Houses drawn upon their Correspondents either at home or abroad.

One great cause of the *solidity* of the paper which circulates in England, is the *strictness of the law for the immediate recovery of debts*; and another is, the *rigor of the law against usury*. At first sight, any one must perceive that the signature

nature of an individual, or a Company, bears as a mortgage upon the whole of the property of that Company or Individual, in the most complete manner. No legal act whatever, nor any mortgage, can in its nature be more sacred, or more secure, than a simple signature, by means of which the property of every species of the person or persons who gave the signature may be seized, without any possible means of defence, or scarcely even of delay. In those countries where the law is not so strict in this respect, paper credit never can be so solid as in England; and therefore foreigners may the more easily give credit to the tales that are told of a paper circulation without foundation or solidity.

The strict regulations concerning the interest of money, which is limited to five per cent. under the penalty of three times the sum lent, to be levied *upon the lender*, is, however, the great palladium of British Credit. As no man gives circulation to his own paper, so it is, that those who accept of it, in order to discount it at so low a rate as five per cent. must be convinced of its solidity, because the premium is too small to pay *for any risque*. Whatever paper is therefore considered as in any degree suspicious, is cut out from circulation in the affairs on the great scale; and therefore the money market is always kept

kept clear of all paper, except what, according to the calculations of those who take it, is good; and they must be the best judges, and the most sincere. Certainly, when for 1l. 5s. interest, a bill of 100l. is discounted for three months, the man who discounts it lays a great bet in favour of its solidity.

When any paper gets into circulation (and till it does we have nothing to say to it), we may consider that the person *who first received it as cash*, took every means he could to be informed of its goodness; that is to say, of the probability of its being punctually paid. Experience has always shewn, that the individual is generally very clear-sighted in his own affairs; and therefore the public can have no better guarantee for the general safety of theirs.

After premising, that the strict laws relative to the regulation of interest, and recovery of debts, are the main barrier against the circulation of paper that is not solid, in whatever form it may be, let us begin by considering the three different sorts of paper, taking each separately.

BANK NOTES, issued by Public Companies, ought to be first examined; and in doing so, we shall find that they have a *double security*. The capital of the Banking Company is, in the first place, answerable for the payment of its paper.

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It is upon the inadequacy of this capital, that the absurd alarms are founded.

The Bank of England, it is asserted, has only about eleven millions of capital; I say, *asserted*, and I allow, that the capital on which dividends are paid, is not much more---but is that the REAL capital? Supposing, however, for argument's sake, the Bank has no more, and that there are three times that quantity of notes in circulation (which is also asserted), does it follow that Bank Notes are not solid? No, certainly. As the Directors of the Bank *never issue one note, except upon some security that appears to them to be good*, all those securities, as well as the original capital of the eleven millions, are answerable for the payment of the notes; so that the eleven millions are not the real security for the notes, but an EXTRA SECURITY; it is therefore difficult to conceive how any thing but the grossest ignorance can throw suspicion on the paper of the Bank.

The enemies of England say, with truth, that there is not cash in the Bank to pay the notes that are out. If that were not the case, the Bank would be an absurd, useless, and very expensive establishment. The cash in the Bank is, however, in such quantity, as is far more than sufficient to pay any demand that can in the ordinary

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ry course of things occur. And as all the securities lodged in the Bank are at *short dates*, it follows, that in case of any very extraordinary run, those securities would be realized quicker than it would be possible to count the specie which might be demanded in exchange for the notes.

The securities in the Bank are either GOVERNMENT SECURITIES, MERCANTILE BILLS, or PLEDGES of INTRINSIC VALUE. The payment of taxes is perpetually reimbursing the advances to Government; the bills of commercial men are either paid in Bank of England notes, or in gold; therefore, as they become due, they either bring back a portion of the Bank Paper in circulation, or they bring in gold; so that in either case there is no doubt as to the solvability of the Bank.

As to the pledges of *intrinsic value*, they, our greatest enemies, will allow, would answer for themselves.

Such then is the *solidity of the Bank* of England, that, unless a general bankruptcy took place, it could never be in any embarrassment, as it has security for every note in circulation. In my next, I shall enter more particularly into the nature and solidity of this security, even in case of a general bankruptcy.

GRESHAM.

LONDON,
SEPT. 13, 1796.

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LETTER III.

TO THE CONDUCTORS OF THE ORACLE.

GENTLEMEN,

ALTHOUGH the paper that circulates in England is with propriety divided into three classes; yet those are so nearly connected, that it is difficult to treat of them separately.

The BANK PAPER rests its surety, in a great measure, upon the paper of private individuals; in considering the solidity of the former, it is therefore necessary to consider that of the latter at the same time.

The only plea that has been alledged, or, at least, that has been admitted, as proving that the paper which circulates in England is *not solid*, is, that there is not gold or silver enough in the kingdom to pay it all off at once. This fact I have readily admitted, and now mean to answer, without any species of illusion or subterfuge.

In the first place it is to be observed, that the very objection made to the solidity of the paper, bears with it this negative conclusion, that if there were gold and silver sufficient to answer for the payment of the paper, then it would be SOLID. Now it follows from the same assertion; that if there is real INTRINSIC value of any other sort in the possession of those who have
issued

issued the paper, to call it all in, then it is *SOLID*; because all *intrinsic values* are the same with gold and silver.

It has been asserted, and I shall suppose it true, that there circulate in England 30 millions of Bank paper, and 30 millions of private notes, and that the specie only amounts to 25 millions — Now, Gentlemen, I am willing to allow this without any question, and I even go a little farther, and suppose that the bills and notes exceed the specie by 45 millions; which is 10 millions that I throw into the scale in favour of my opponents.

I begin then with enquiring who are the persons who have issued these bills, and I find it to be the *Merchants* and *Manufacturers*, whose whole capital, in the aggregate, is answerable for the payment of them. I must therefore begin and calculate how great a value is in reality mortgaged for the payment of 60 millions of paper which is in circulation, and I find that there is property in possession of commercial men to a very considerable amount, as follows:—

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Owing by Merchants in foreign countries, all our debts being deducted, at least - - - -	10,000,000
Raw materials and unfinished goods of all sorts, in the hands of Merchants and Manufacturers in Britain - - - - -	14,000,000
Machines, tools, warehouses, &c. &c. - - -	9,000,000

Manufactured goods in the shops, warehouses, furniture, &c. of people in business - - -	56,000,000
Shipping belonging to English Merchants - - -	10,000,000
Capital employed in Jamaica, and other posses- sions abroad, belonging to English Merchants	11,000,000
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Property of men in trade - - -	110,000,000
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This is, without including landed estates, houses, ready money, and other property belonging to commercial men, and those who have bills or notes in circulation, all which would be applied to the liquidation of the debt, in case of a general crash.

Thus it would appear, that there is real value to the amount of at least twice the paper in circulation, the solidity of which is therefore undeniable.

It may be said, that all this property could not come to the hammer, and be sold at its real value; and indeed it is very true that such an operation would be impossible; but likewise it is *impossible that such an operation should be necessary.*

The far greater portion of the Bank notes and bills are circulating *amongst those very men who have that property* So that though the property of some individuals would come to sale, yet as the money is owing from one to another, some individuals would be *receiving*, while others were paying. As for example:---When the private Merchants paid their bills, Bank notes

to the same amount would be drawn out of circulation; so that 30 millions of intrinsic value would reduce the amount of paper circulation 60 millions; for the Bank notes and the private paper are what the French call *UN DOUBLE EMPLOI*; that is to say, one million of private paper in the Bank, and the million of Bank paper which discounted it, is only in reality *a duplicate* of the same thing; for as soon as the million of private paper is paid, the *million of Bank notes ceases to exist*. Now as this is the case, it follows that the 25 millions of specie which exist, would draw out of circulation 50 millions of paper; for it must never be forgotten, in examining this matter, that the paying of the private bills reduces the number of Bank notes in the same proportion: so that every bill of a thousand pounds paid, reduces the total circulation of paper two thousand pounds.

The whole specie of the country is not indeed in the hands of people who have bills to pay; but more than one half of it is in the hands of Commercial Men and Bankers; and therefore the specie alone would pay off nearly one half of the paper in circulation, and for the other half there would remain the 110 millions as before stated.

These calculations are not very exact, nor is it at all necessary that they should be so; because

cause they are far within bounds, and the *surplus of solvability* is so great, that to be very accurate would not be very useful. I shall, nevertheless, on a future day, give the grounds on which those calculations are founded.

GRESHAM.

LONDON,
SEPT. 17, 1796.

LETTER IV.

TO THE CONDUCTORS OF THE ORACLE.

GENTLEMEN,

HAVING proved undeniably the more than sufficient means of paying all the PAPER in CIRCULATION, without selling one-tenth part of the property of our merchants and manufactures, even in the case of a general discredit; I am next to consider the time in which it would be done.

Of thirty millions of Bank bills, supposed to be in circulation, more than twenty millions are in the hands of commercial men. Now as those commercial men have issued thirty millions of notes, payable in two or three months, it follows, that they must provide bank notes to pay their own bills with, as they become due; and when this operation shall have been finished, there will not remain more than ten millions of
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Bank notes in the possession of the public, and there will only remain ten millions of PROTESTED BILLS, supposing even that the commercial people have not been able to produce any gold, and supposing that the bankers had no gold likewise. But, Gentlemen, as it is certain, that the public and private banks have very nearly half the specie in the kingdom in their possession, it would follow that after paying the ten millions in question, they would still have a surplus of two millions or rather more.---It is to be presumed also, that the mercantile and manufacturing interest would be able, out of their 110 millions of real property (ten of which is owing by other countries) to have realized something from abroad, we may at least suppose five millions---so that a DELAY in paying the remaining five millions, is all that could happen in the worst of cases!!!

These are DEMONSTRATIVE PROOFS, to which it will be difficult to find an answer, so far as they apply directly to the general mass of notes or bills issued by mercantile men, or by banking companies in aid of mercantile men.

As to the individual bankruptcies that would take place amongst commercial men, that is indeed another consideration; but that has no connection with the affair, as it is stated by the enemies of England; because the same would be
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the case, even if the public banks had gold to pay all the notes that are out, and it must still be kept in view, that their NOT having enough of gold is the circumstance of which THOMAS PAINE and the other enemies of England complain.

Such then is the situation of our paper credit, so far as Bank notes are issued in aid of commercial men, when viewed on the great scale---The SOLIDITY OF THE FABRIC IS INDISPUTABLE, and it belongs only to the ignorant or the malevolent to dispute it.

That portion of notes in circulation, which is issued for the service of Government or the discount of Navy or Exchequer bills, is indeed different, and it comes next to be the business to consider how such notes would in a moment of crisis be withdrawn.

As the advances made by Bankers to the mercantile interest, are repaid by the bills becoming due, so are the notes issued to Government brought back by the taxes, which serve the Bank as a *security*: for it is to be observed, that the Bank never lends to Government, but upon *security* given for the payment. So long, therefore, as the taxes continue to be paid, the Bank is safe.---I know that the enemies of England will here ask the same question that they have been asking these eighty years. How long will the Government be able to pay? To this I shall answer,

answer, as I would concerning any individual who has hitherto been punctual in his payments ---“ Forever, if the business is well conducted; “ and if ill conducted, the distance of time will be “ greater or less according to the degree of good “ or bad conduct.”

I will in the most unqualified manner maintain, that if the affairs of this nation are wisely managed, public credit will be kept up; but I do not mean to say, that if they should fall into the hands of unfaithful or foolish managers, a Bankruptcy would not soon take place.---I should not go quite so far as the French, when upon the eve of a general Bankruptcy they proclaimed, that he who pronounced the word Bankrupt should be infamous---I am no enthusiast, and I hope to escape the appellation of empiric, as I stick to reason and to fact in whatever I say, which every man is bound to do, who addresses the public on a serious subject.

There is yet one thing untouched upon, and that is, those *bills in circulation which are not for real transactions*.—Those, it is true, have on various occasions been the cause of discredit and want of confidence.

A Bill ought, as it bears upon its face, to be for value received, that is well understood, and universally allowed; but it does not follow from

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thence,

thence, by any means, that every bill which does not originate in a real transaction is either a bad or a dangerous bill.—A bill is, as I have already said, a mortgage on all the personal property, and on the body of the person who signs it; and whether it originates in consequence of a real transaction or not, it is equally sacred.

What will no doubt astonish many of your readers, Gentlemen, is, that if I were to have my choice of a real or a fictitious bill, I WOULD TAKE THE FICTITIOUS ONE. That I may speak clearly, I mean to say that, *ceteris paribus*, the moral chances are in favour of the *fictitious bill*.—My demonstration is easy and clear. *A.* and *B.* have had real transactions for a considerable time, *B.* owes at last a balance of 500*l.* to *A.* who is very glad to take the note of *B.* for the money, although he has *some doubt* of its goodness, *B.* having for some time past been rather embarrassed. Thus it is, that bills for *real value* delivered, are frequently taken when they are *not* thought perfectly good. Had the case been different, and no real transaction had taken place, then *A.* would not have indorsed the bill of *B.* without being *perfectly satisfied as to its goodness*, because the transaction would have been entirely *optional*. It is fair then to conclude, that as the receiving fictitious bills and indorsing them

them is a voluntary act, and as real bills are often received from necessity, the fictitious bill is the more solid of the two !

As I by no means wish, either by a quibble or a subterfuge, to delude those who desire to study this subject, I shall continue the same arguments, and carry them still farther in my next, concerning the solidity of FICTITIOUS BILLS.

GRESHAM.

LONDON,
SEPT. 18, 1796.

LETTER V.

TO THE CONDUCTORS OF THE ORACLE.

GENTLEMEN,

I PROMISED in my last to extend my arguments still farther in behalf of *fictitious*, or as they are more properly called ACCOMMODATION BILLS.

The appellation of *fictitious* conveys a meaning which is not in this case a *fair one*. The bills so called are fictitious, in some degree, with regard to the *value received*; but they are REAL with respect to the *obligation incurred*. Now, as it happens, the obligation itself, and not the cause of the obligation, constitutes the value of the

bill in law, so, properly speaking, the bill is to all intents and purposes a REAL and not a fictitious bill. Even the value received is not altogether a fiction in an accommodation bill; because a receipt given for the bill or the obligation, which the other party contracts, is a *valuable consideration*, the same as in any other bargain for time, or obligation *to be performed*.

Calling then those bills *accommodation bills*, I have already proved that they are in general better than bills drawn in *order to pay debts already contracted*.

Those who think themselves very knowing in this species of negotiation, will at once say, that I know little about the business; for that no obligations are stronger than those of men who mutually accommodate each other with bills. It will be said, that they are so engaged and connected, that the accommodations are by no means *voluntary*, but mutually necessary, and that in a very high degree. This I am ready to grant is often the case; but still it does not invalidate in any degree my argument.

The accommodation bill may, in its origin, be of a dubious nature; the drawer and acceptor may be both men without credit; but if so, they will not find any one to discount *their* bill, and till it is discounted the bill does not concern the public.

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It is till then a private affair entirely, and has no connexion with the general credit of the paper of the country. Before such a bill is discounted, it must have acquired, by one means or other, such a probable degree of solidity as to induce some monied men to run the risk of turning it into cash, for the trifling advantage which the law allows.

I by no means intend to give any *general law* as being an universal one; on the contrary, I know that every general rule must have *some* exceptions; but I mean in the most decided and unequivocal manner to maintain, that generally speaking, no bill that is not reckoned certain of being punctually paid can be discounted; and till *it is discounted, it forms no part of the security for English Paper Credit.*

I am well aware, that in bringing forward *new ideas* on this important subject, I am liable to criticism. I have already ventured upon maintaining two TRUTHS, that are *new* to the Financial World.

The first is—That the private paper is only a duplicate of the Bank Notes. The second is what I have been this moment saying—That fictitious or accommodation bills, are, generally speaking, more solid than bills drawn in consequence of real transactions. But, Gentlemen, the truth which I have yet to hold out will seem

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at first sight to be still more strange than either of these—I mean to maintain, that the SCARCITY OF GOLD AND SILVER IN THIS COUNTRY WILL PREVENT ANY SERIOUS RUN UPON THE BANK OF ENGLAND. This is indeed diametrically opposite to the general and universally received opinion; but the justice and truth of it will nevertheless soon be perceived.

Let us suppose, that, from some cause or other, the public became suspicious of the credit of the Bank, and wished to exchange their notes for gold. If England were not a trading country, and if the possessors of notes were *hoarders of money*, then a run upon the Bank might indeed be ruinous; but that is not the case.

Of the notes that are out, one-eighth at most circulate amongst people *who have no concern in trade*, and no obligations to pay. Suppose, then, a run to begin, and that there are 32 millions of notes out, it would go on nearly as follows:—

The avenues to the Bank would be crowded with people, wishing to change their notes for gold; and 200, or at most 300,000 pounds would be changed every day. More could not be paid, because the Tellers could not be able to do it with sufficient certainty.

While this was going on, the Bank would be receiving half a million of its notes every day in payment of the commercial bills in its possession,
or

or in the possession of bankers. So that in ten days eight millions of notes would be brought in, while the Bank would only have paid three millions in specie.

The quantity of notes in circulation would, by this time, be diminished *one fourth*; and a want of a circulating medium would be severely felt; for a very few of the guineas received at the Bank would enter into circulation immediately. Bank notes would therefore become scarce, and in place of bringing them in, people would join earnestly in demanding them, which would immediately restore credit, and put an end to the demand for gold.

This would not be the case were there gold and silver enough *fully to supply the place of the notes*, in which case they might all be brought in; but as a circulating medium is *absolutely necessary*, it would infallibly happen, that instead of being brought in, they would soon be in greater request than ever.

A run upon the Bank of England is merely a bug-bear, a phantom conjured up by our enemies, and credited by the unthinking: even the very cause assigned for that run—namely, the *want of gold and silver*, is the reason why it could not possibly take place.

“There is no money in the Bank,” say our ignorant enemies---“Its cellars do not contain

“one

“one tenth of the value of the notes which it “has issued”---Do they know (those our enemies) that the cellars of the Bank of England may be said to extend over three-quarters of the known world, and that half the warehouses from Surinam to Japan would be emptied of their goods before the notes of the Bank of England would go unpaid.

Wherever Englishmen carry their goods (and where is it that they do not carry them?) they give credit, and the whole credits and property of the mercantile people of England must answer for their *obligations*; upon which *obligations* the *Bank Notes of England depend*.---Is not their foundation sufficiently ample?

Away then far from us, those pitiful apprehensions which are engendered between the malignity of our enemies and the pusillanimity of ourselves. Our paper credit is not a baseless fabric; and as on it our commerce depends, let us resist every attempt to destroy the one or the other, whether coming from enemies without or within---whether they are open or concealed---whether they come from THOMAS PAINE, who frankly confesses he wishes that England may be humbled; or from a Lord or a Commoner, who pretend to be patriots, and give their *revelations by way of serving* their country!

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It is not a blind confidence that is to be wished for or encouraged, but that confidence which is founded upon reason and experience. Two things are principally to be kept in view ; let the Directors of the Bank consider, *that it is their duty and their interest to aid commercial men, as far as they with prudence can*; and on the other hand, let commercial men be guided by prudence in their speculations, keeping always in mind, that they depend upon credit, and that credit depends upon good conduct and public opinion.

GRESHAM.

LONDON,
SEPT. 20, 1796.

GOVERNOR AND DIRECTORS OF THE
BANK OF ENGLAND.

GENTLEMEN,

AFTER demonstrating in the foregoing letters the IMPOSSIBILITY of a RUN upon the BANK of ENGLAND, I think it is equally my duty, as a friend to my country, to write to you as the *guardians* and *administrators* of that *Bank*.

As *Bank Directors* you have a double duty to fulfil---One towards the Proprietors of Bank Stock, and another towards your country.

To understand those *two* duties well, we must examine the original intention of the *charter of the Bank*.

Every *exclusive privilege* has its foundation in the public good, which is intended to be promoted by it, and to which the interest of those receiving that privilege is to be *subservient in such cases as they are opposite to each other*. When the Government of the country grants an exclusive privilege, the person or persons to whom it is granted incur the *obligation* of supplying the public with the article or articles for which it is granted.

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If this condition is not fulfilled the privilege is forfeited, as has been repeatedly determined by our Courts of Justice, in the cases of Patents for Inventions. I take for an instance the Charter of the East India Company; should that Company determine not to send any ships to India, or to shut up its warehouses, the privilege then would go to the preventing England from having any goods from India---Do you think such a meaning could be given to that or to any other exclusive privilege? I am confident you cannot think so; and I am even very well convinced, that if the Company were to put an unreasonably high price upon East India articles, the Charter would thereby be forfeited.

Now, Gentlemen, you are the Administrators of a Company which has an *exclusive privilege* for issuing promissory notes; that is to say, your Charter is such, that no other Company can establish itself upon a solid and respectable basis to rival you.---It is therefore, in all respects, *equivalent at present to an exclusive privilege* in the strictest sense of the term---You will not, I presume, say "that you have a right to let this privilege *lay dormant*, and deprive the public of " Bank-Notes altogether." The question then comes to be, How far you have that right?

There is a *discretionary* but not an *unlimited* power granted to the Directors; who are not by

any means, at liberty to act at will with regard to the accommodation which they grant the public. I say, Gentlemen, *you are not at liberty to act in whatever manner you please*; and that you are BOUND TO ACCOMMODATE ALL SOLVENT MEN who comply with the established and customary conditions. Nevertheless, as you may not be inclined to think so, I shall reason the matter in the way that you *may* think proper yourselves.

You will readily allow, either that *you have*, or *have not*, an unlimited power depending merely upon your own will and opinion. In short, the most you can say is, that you form a Jury, sitting upon the credit of your fellow-citizens.

My opinion is, that your power is limited; but if I am wrong in that, which is possible, I shall hazard the opinion, that IF you, the Bank Directors, have an *unlimited power* to refuse whatever paper you please, that then the Charter of the Bank is *wrongly given*; and that the Minister of this country does not do his duty, unless he does his utmost to establish a BOARD of CONTROUL for the Bank, the same as there is for the India Company.

No power whatever (where opposite interests are at stake) ought to be without some controul. The Constitution of these kingdoms has named
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King, Lords, and Commons, that they may controul each other--- and it was wisely done.

Shall we then have more confidence in a Commercial Company, than in the Chief of the Nation, who is daily controuled? The Bank Directory alone is not to have any controul at all. This is really too absurd and too unreasonable! Even the *French Directory* is controuled; and shall the *Bank Directory* be like an Eastern Potentate, whose word is a law as soon as spoken?

No, Gentlemen, if you are sufficiently unreasonable to think so, you will excuse me if I am not foolish enough, or complaisant enough, to subscribe to your opinion.

I must then repeat, that if your *power is arbitrary*, and without appeal, it ought not to remain so; and I will venture to give it as my opinion, that if it should be proved to be such, the Minister of this country does not deserve to be such, unless he establishes a BOARD OF CON-
TROUL over you; for such a power *as you have is as inconsistent with the spirit of the Constitution, as it is incompatible with the interests of the Nation at large.*

Let us next suppose that your power is limited, the business will then be to find out the limits.

The first affair certainly is to supply the Public with Notes, upon such conditions as your
Charter

Charter permits, and as CUSTOM and EXPERIENCE warrant.

Now, Gentlemen, as your Constituents, the Holders of Bank Stock, have never suffered any serious inconvenience, or real loss, from discounting, where *three solvable names were on a Bill*, I believe you will find it difficult to prove, that their *interest* requires you to refuse such Bills: and I believe, nay, I am certain, that the interest of the Public requires, that the great majority of such Bills should be discounted. I therefore do not think that your discretionary power goes so far, as to enable you to refuse the major part of such Bills, unless (which is not the case) the interest of your Constituents required you to do so.

Perhaps you may say, that trade requires more accommodation than your ready money in the Bank will warrant your giving. Why do you not then get more ready money, since your Charter was given you in order that the Public might be supplied, and since you are bound to supply it? You may have more if you will. I should be glad indeed to know, what proportion you have fixed upon between your cash in hand and notes issued; for, as it is well known, that with the most strict limitation of discounts, you still have MORE notes out than you could convert into gold or silver on demand, there seems to me to be NO PARTICULAR point

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to stop at, and I am indeed convinced there is none, nor can there be any.

First of all, it is not the sum that is out, that is the great point; you should take the whole sum in circulation, and multiply it by the time it is lent for; and from that you may come at something like a basis for a calculation.

To make this the more clear, I suppose you have discounted a bill of 1000l. at ninety days date, and another of 1000l. at ten days—By the simple rule of calculating, you would have to preserve in hand the same quantity of cash in both cases; but as the probability is, that nine times as much would come in during ninety days, as during ten—it follows then, that nine times the cash would be necessary.

Again, if you follow this rule, you are subject to error still, though not near so great as in the other case; for as the whole mass of discounts *increases*, so the *proportional sum* of cash necessary *decreases*, supposing even *that there* is any natural proportion, which there certainly is not. The calculation then becomes a very intricate one, which I dare venture to say no one of you ever fairly made, in which case you have either taken a wrong rule, or no rule at all.

It is clearly your business to provide gold and silver, if you find that it is wanted; your privilege is given you for that purpose, and if
you

you do not do it, your privilege is in fact forfeited.

As I have already proved, that much gold and silver could never be called for, and that the payment of the bills you had discounted would bring back the notes which you had issued, I shall for the present content myself, with supposing that you have hitherto limited discounts under the *false alarm of a run upon your establishment*; but that idea being now done away, and proved to be groundless, I hope you will shew the public that you merit to be entrusted with the direction of a National Establishment upon which the prosperity of our Commerce depends.

GRESHAM.

LONDON,
SEPT. 26, 1796.

TO THE

GOVERNOR AND COMPANY OF THE
BANK OF ENGLAND.

GENTLEMEN,

AFTER having proved, that your duty, according to the Charter of the Bank, requires you to supply the Public with Notes, for which purpose your Charter was given—let us
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next take a view of the evil, which your refusing to discount good bills produces, and we shall find it *too great to be slumbered upon*—nay, to be such as demands an *immediate remedy*.

The moment that good bills cannot be discounted at the Bank, that moment every private Banker is under a necessity of limiting his discounts in a *still greater proportion* than the Bank does; because, in case of wanting money, he cannot procure it by means of the bills he has in his possession.

Each individual, in the same manner, finding himself uncertain whether he can procure money when it may be wanted, becomes hampered in his operations, and is obliged to keep *more ready money* by him than he would otherwise need to do, or than he is accustomed to do.

This cannot be better illustrated than by what happens when there is *a scarcity of bread*; each person then begins to hoard, not knowing that he can have it when wanted.

Not only then *do you hamper and plague the whole trading Nation*, but you *increase the demand for the very thing you refuse to give*; and I beg you to consider what would be the case, if at present people did not hoard up notes or cash a few days before their bills become due, in order to pay them.

You, Gentlemen Directors, are inexorable—

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you

you have no *reasons to give*, nor will you hear any. Your notes, and the gold which you complain of wanting, are necessary to pay bills, and neither can be had in time. Bankruptcy then takes place of ONE, TWO, THREE, and perhaps of THREE THOUSAND commercial houses—you still continuing to draw the purse strings closer and closer, as the danger increases.

This, Gentlemen, is a case that involves the safety of the nation ultimately, and the prosperity of thousands immediately.

Now I hope you will allow, that to commit the safety of a nation to any twenty-four men in existence, let them be ever so respectable, *who are all acting on one interest*, is rather a dangerous experiment.

Ought any single interest to be entrusted with the YES and the NO on so very important a question, particularly a YES or a NO without deigning to give a reason?

I do not wish, in the present instance, Gentlemen, to trouble you with a long letter, because you must be allowed a little time to consider the matter, after having seen it demonstrated, that there is no possibility of that run upon you for gold, which THOMAS PAINE and some others would persuade you will come; and I leave you to consider and reflect on the justice of what I say, with respect to the Public remedying, in
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some shape or other, your want of means, or want of will, to accommodate people who have good bills to offer.

I know you and others will say, that the India Board of Controul is a different thing, that it was not grafted on an existing Charter, but added at the renewal of one. Other reasons may be likewise adduced; but all these are done away, and more than done away, by this single fact, that the safety of England is endangered, if discount cannot be procured upon a good commercial bill, to which there are three solvable names, according to the usual acceptation of the term—GOOD BILL.

I am not one of those who say, that a Charter is only a dressed calf skin, with a piece of wax attached to it; but neither do I think that the *prosperity of England* is to be endangered for any Charter, however sacred, even if you could prove, that in refusing to accommodate the Public, you did not yourselves destroy your own exclusive privilege.

GRESHAM.

LONDON,
SEPT. 26, 1796.

P. S. After having said, that a little time must be allowed to consider of the contents of these letters; I hope I may be permitted to add, that
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if the same system of discounting is without necessity and contrary to reason persisted in, I shall resume the subject in a more serious style, and *awaken the nation* to the danger impending, and which I will prove to be inevitable unless a remedy is speedily applied.

FINIS.





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